

## Chapter

# 3

# Annual Compensation

## **Annual Compensation Defined**

### **Types of Annual Compensation**

**Salary for Regular Contractual Duties**

**Wages for Substitute and Part-time Employment**

**Extra Duty Earnings**

### **Extra Duties Requiring Certification**

### **Extra Duties Not Requiring Certification But Related to the Academic Program**

### **Extra Duty Earnings Flowchart**

**Summer School Earnings**

**Pre-term and Post-term Assignments**

**Wages While Using Vacation, Sick Leave, and Personal Days**

**Termination (Lump Sum) Payments**

### **Payments Issued After a Member's Death**

**Contributions to Qualified Plans Eligible for Tax-Deferral**

**Salary Reduction Plans**

**Court Settlements and Back Pay Wages**

### **Noncreditable Compensation**

**Summer School Performed Under a Separate Agreement**

**Positions Which Do Not Require**

**Certification or a Four-Year Degree**

**Extra Duties Not Requiring Certification**

**Bonus Payment to Distinguished Educators**

**Retirement Incentives**

**Benefits Not Available to Other Employees**

**Expense Reimbursements and Allowances**

**Compensation in Excess of Pension Plan Limits**

**Compensation Limited by KRS 161.220(9)**

### **Accrual Reporting Requirements**

### **Questions**

## **EMPLOYER RESPONSIBILITIES**

**Employers should review this chapter and become knowledgeable as to what types of compensation are to be included as KTRS compensation. If a question arises concerning a payment not outlined in this Chapter, the employer should contact KTRS regarding the payment.**

## **ANNUAL COMPENSATION DEFINED**

**(KRS 161.220 (10))**“Annual compensation” means the total salary received by a member as compensation for all services performed in employment covered by the retirement system during a fiscal year. Annual compensation shall not include payment for any benefit or salary adjustments made by the public board, institution, or agency to the member or on behalf of the member which is not available as a benefit or salary adjustment to other members employed by that public board, institution, or agency. Annual compensation shall not include the salary supplement received by a member under KRS 158.782 on or after July 1, 1996. Under no circumstances shall annual compensation include compensation that is earned by a member while on assignment to an organization or agency that is not a public board, institution, or agency listed in Chapter 2 of this manual. In the event that federal law requires that a member continue membership in the retirement system even though the member is on assignment to an organization or agency that is not a public board, institution, or agency listed in Subsection 4 of this section, the member's annual compensation for retirement purposes shall be deemed to be the annual compensation, as limited by Subsection 9 of this section, last earned by the member while still employed solely by and providing services directly to a public board, institution, or agency listed in Subsection 4 of this section. The board of trustees shall determine if any benefit or salary adjustment qualifies as annual compensation.

In general, “annual compensation” is forms of compensation that are recognized by KTRS as salary for reporting and retirement purposes. KTRS accepts many, but not all, types of compensation.

Annual compensation is the basis upon which member contributions, employer contributions, and benefits are calculated.

## **TYPES OF ANNUAL COMPENSATION:**

Reportable annual compensation includes (but is not limited to) the following compensation items for active KTRS members:

- Salary for Regular Contractual Duties
- Wages for Substitute and Part-time Employment
- Extra Duty Earnings
  - Contractual teachers: extra duties related to teaching or the academic program, or involving supervision of students
  - Noncontractual teachers: only extra duties requiring teacher certification
- Summer School Earnings
- Pre-term and Post-term Assignments

- Wages While Using Vacation, Sick Leave, and Personal Days
- Termination (Lump Sum) Payments
- Contributions to Qualified Plans Eligible for Tax-Deferral under the IRS Sections 401(a), 401(k), 403(b), and 457(b)
- Salary Reduction Plans
- Court Settlements and Back Pay Wages

### **1. Salary for Regular Contractual Duties**

Annual compensation should include any salary received for services performed in a KTRS position. A KTRS position includes any position that requires certification from the Kentucky Department of Education or a position that requires a four-year degree.

### **2. Wages for Substitute and Part-time Employment**

Effective July 1, 2002, the KTRS membership has expanded to include individuals occupying a position on a part-time or substitute basis. This membership requirement does not apply to persons employed by a KTRS University employer.

### **3. Extra Duty Earnings**

KTRS guidelines for reporting extra duty wages vary depending upon the member's employment status.

**- Full-time or part-time contractual teachers** - Payments for extra duties that involve teaching or supervising students and other assignments related to the academic program are reportable as annual compensation, regardless of whether the extra duties require certification. This also applies to those who are contractual teachers at one district and perform extra duties at another district.

**- Substitute or part-time noncontractual (hourly) teachers** - If the Kentucky State Board of Education requires teacher certification for the extra duty, the wages are reportable to KTRS as annual compensation. If teacher certification is not required for the extra duty, the wages are not reportable to KTRS.

The Kentucky State Board of Education, not the individual employer or KTRS, determines whether a position or extra duty requires certification. Extra duties that do not involve teaching or supervising students and that are not related to the academic program are not reportable. Earnings for positions that are not reportable to KTRS (e.g., bus driver or teacher's aide) are subject to Social Security and may be reportable to the County Employee Retirement System (CERS). Consult the CERS Reporting Official Manual for specific guidelines.

#### **Extra Duties Requiring Certification**

Stipends or wages paid for these extra duty positions are reportable to KTRS for all active certified teachers, including substitute and part-time noncontractual (hourly) teachers. (See Chapter 2, Membership, for additional information regarding positions that qualify for KTRS membership.)

Acting Principal  
Assistant Athletic Director  
Assistant Band Director  
Athletic Director  
Band Director

Department Chairperson  
Driver's Education Instructor  
Exchange Program Coordinator  
Guidance Counselor  
Internal Substitution

## Teachers' Retirement System of the State of Kentucky

---

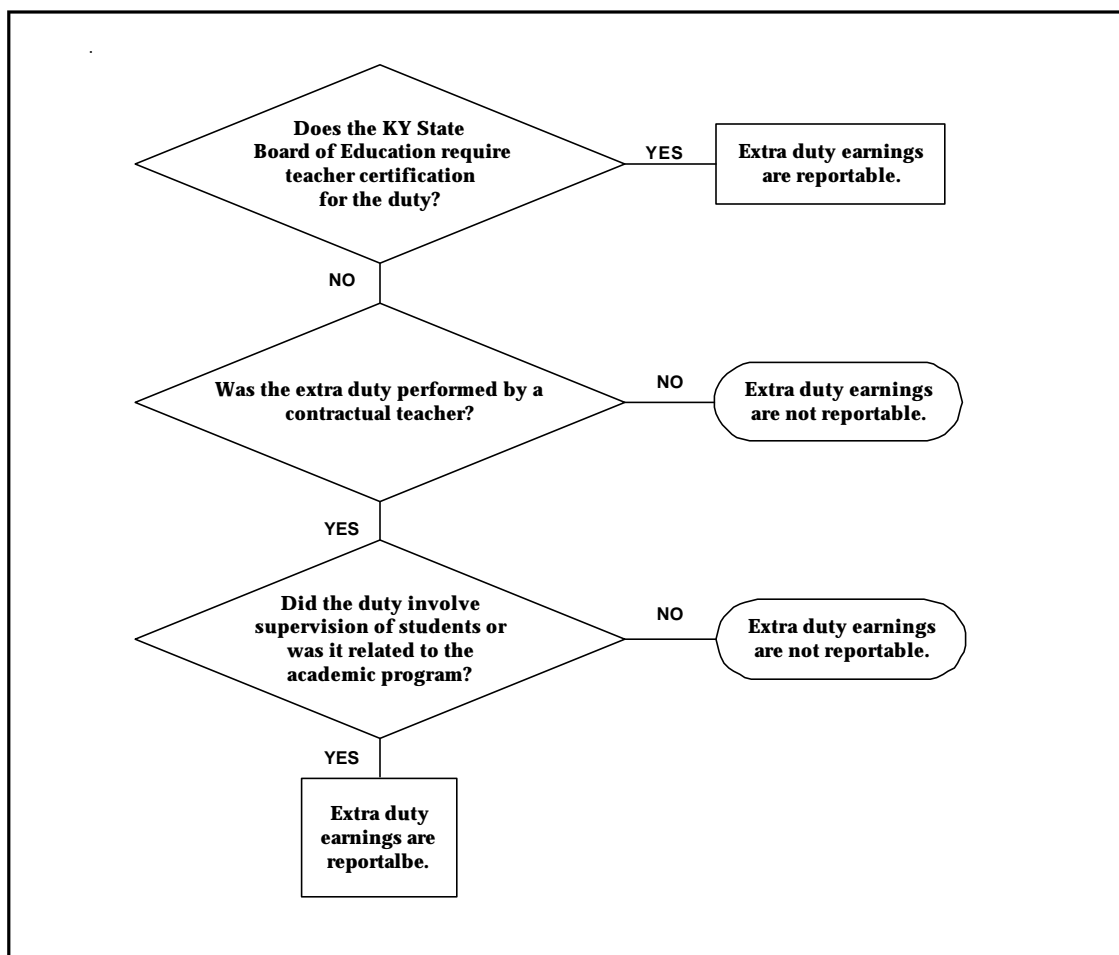
Building Trades Instructor	Jazz Band Director
Computer Lab Instructor (if during the school day)	Night Class Teacher
Concert Band Director	Test Supervisor (if during the school day)
Co-op or Work Study Coordinator	Tutoring (if during the school day)
Coordinator of Health/P.E.	Vocational Director
Homebound Teaching	

### **Extra Duties Not Requiring Certification but Related to the Academic Program**

Stipends or wages paid for these positions and duties are reportable to KTRS for only full-time and part-time contractual teachers. These wages are not reportable for substitutes and part-time noncontractual (hourly) teachers.

Art Club Sponsor	Drama Club Sponsor
Audio Visual and Video Club Sponsor	FFA Sponsor
Bell Choir Sponsor	FHA Sponsor
Bleacher Bums Sponsor	Fitness Program Supervisor
Bowling Club Sponsor	Flag Squad Sponsor
Boys Club Sponsor	Food Service Program Manager
Bus Loading Supervisor	Forensics Sponsor
Bus Monitor	French Club Sponsor
Business Club Sponsor	German Club Sponsor
Chaperones for Dances and Bus Trips	Girls Club Sponsor
Yearbook Editor	Golf Club Sponsor
Cheerleading Sponsor	Hallway Supervisor
Chess Club Sponsor	Instructor at Teacher Institute
Chorus Sponsor	Intramural Sports Supervisor
Class Sponsor	Journalism Club Sponsor
Coach	Latin Club Sponsor
Concession Manager	Lifesaving Instructor
Curriculum Planning	Literary Club Sponsor
Debate Sponsor	Lunchroom Supervisor
Detention/Discipline Monitor	Math Honor Society Sponsor
Math Team Sponsor	Special Olympics
Mentor	Speech Club Sponsor
Music Production Director	Speech Judge
Music Production	Technical Dir. Student Council Advisor
National Honor Society Sponsor	Student Teacher Supervisor
Newspaper Sponsor	Study Hall Supervisor
Pep Club/Booster Club Sponsor	Supervisor of Students at School Events
Physical Activities	School Dir. Swim/Aquatics Club Sponsor
Playground Supervisor	TV News Service Director
Pompom Squad Sponsor	Technical Director of Musical Productions
Professional Development Committee Member	Theater Business Manager
Spanish Club Sponsor	Ticket Taker*
Prom Sponsor	Timekeeper*
Registration Worker	Twirler Club Sponsor
Safety Patrol	Usher
Scholastic Bowl Sponsor	Writers Club Sponsor
Science Club Sponsor	Yearbook Business Advisor
Scorekeeper*	

\* Reportable as annual compensation provided that the member is responsible for supervising students while performing these duties.

**Extra Duty Earnings****4. Summer School Earnings**

Summer school earnings must be examined with the member's employment type and status. Summer school earnings are reportable if they are part of or in addition to the teacher's employment agreement. If a teacher who has established a contract for the fiscal year works summer school, then KTRS contributions should be withheld from the compensation. The length of a teacher's employment agreement or contract is the deciding factor for reporting summer earnings to KTRS. As the employer, you must report to KTRS salary and service information for work performed during the legal school term or length of a teacher's employment agreement (whichever is greater) for teaching, supervising students, and other assignments that are related to the academic program.

For example: Teacher G's contract for the 2001-02 school year included the 185-day school term plus six weeks of summer school. Teacher G's regular school term contract was extended in writing to include the summer months. Two-week summer school sessions were held in June, July, and August 2002. He earned \$25,000 during the school term and \$1,000 per week for summer school. Teacher G did not have a contract for FY 2002-03.

Report summer school earnings earned through June 30, 2002, as annual compensation on the Employer's Annual Report of Earnings form for the 2001-02 school year. Do not report summer school earnings in July and August 2002 since the teacher did not have a contract with the employer for this year.

### 5. Pre-term and Post-term Assignments

When a teacher begins working immediately before the regular school term or continues working immediately after the regular school term, the pre-term or post-term wages are reportable to KTRS as annual compensation if the member was under contract. In situations where a teacher's nine-month (school term) work cannot be completed in the regular school term and continues into the summer months, the teacher is considered to have an extended contract, and the post-term earnings are reportable to KTRS.

### 6. Wages While Using Vacation, Sick Leave, and Personal Days

Wages received while using vacation, sick leave, and personal days are subject to KTRS contributions.

### 7. Termination (Lump sum) Payments

Lump-sum payments (annual leave, comp leave, and sick leave) that are paid or due and payable prior to or concurrent with the receipt of the member's final paycheck for regular earnings or prior to the member's last day of work are reportable as annual compensation.

#### **Payments Issued After a Member's Death (KRS 161.155 (9))**

After July 1, 1982, at the time of retirement or upon the death of a member in active contributing status at the time of death who was eligible to retire because of service, a district board of education may compensate a beneficiary for each unused sick leave day. The rate of compensation for each unused sick leave day shall be based on a percentage of the daily salary rate calculated from the employee's or teacher's last annual salary, not to exceed thirty percent. Payment for unused sick leave days shall be incorporated into the annual salary of the final year of service if the member makes the regular retirement contribution for members on the sick leave payment. The accumulation of these days includes unused sick leave days held by the employee or teacher at the time of implementation of the program.

### 8. Contributions to Qualified Plans Eligible for Tax-Deferral Under IRS Sections 401(a), 403(b), and 457(b)

Members contributing to tax-sheltering plans should include this amount as KTRS annual compensation. For example, if a member earns \$30,000 and contributes \$3,000 to a 457(b) plan, his taxable earnings for the IRS would be \$27,000 while the KTRS annual compensation would be \$30,000.

### 9. Salary Reduction Plans

Under a salary reduction plan, the member may choose either:

- nontaxable benefits, the cost of which is deducted from the member's salary. As a result, the member's taxable income is reduced by the same amount; **OR**
- none of the benefits, effectively receiving cash.

Salary reduction plans are considered to have a cash option for KTRS reporting purposes. The annual compensation reported to KTRS must include the amount of gross wages before any benefit deductions.

#### ***Example:***

Teacher A and Teacher B both have \$20,000 salaries. Teacher A chooses to have \$1,500 deducted from her salary to pay for family insurance coverage. Teacher B selects none of the possible benefits.

	Teacher A	Teacher B
Base salary	\$20,000	\$20,000
Tax-sheltered medical insurance	- 1,500	- 0
IRS taxable income	\$18,500	\$20,000
KTRS creditable earnings	\$20,000	\$20,000

#### 10. Court Settlements and Back Pay Wages

When a KTRS-covered employer and member enter into a settlement agreement or contract buyout to resolve a disputed action or other employment issue, the member's annual compensation and service credit may be impacted by the terms of the agreement. KTRS must review each settlement agreement to determine the amount of annual compensation and service credit that can be recognized.

### NONCREDITABLE COMPENSATION:

The following compensation items do not qualify as annual compensation and must not be reported to KTRS:

- Summer School Performed Under a Separate Agreement
- Positions Not Requiring Certification or a Four-Year Degree
- Extra Duties Not Requiring Certification
- Bonus Payment to Distinguished Educators
- Retirement Incentives
- Benefits Not Available to Other Employees
- Expense Reimbursements and Allowances
- Compensation in Excess of Pension Plan Limits
- Compensation Limited by KRS 161.220(9)

#### 1. Summer School Performed Under a Separate Agreement

Summer school employment by itself does not constitute withholding of KTRS contributions. Summer school should only be reported if the member has been employed under a contract for that particular fiscal year.

#### 2. Positions Not Requiring Certification or a Four-Year Degree

Stipends and wages paid for these duties are not reportable to KTRS. (See Chapter 2, Membership, for additional information regarding positions that do not qualify for KTRS membership.)

Asbestos removal	Custodial or maintenance work
Bus driving	Noncertified administrative positions
Cafeteria work	Scorekeeping, timekeeping, ticket taking, and
Clerical assignments in business office	security at school events if the duties do not
Computer hardware and software maintenance	involve supervision of students
	Teacher's Aide

#### 3. Extra Duties Not Requiring Certification

Extra duties not requiring certification but related to the academic program are not reportable as annual compensation for substitutes and part-time noncontractual (hourly) teachers. NOTE: These would be reportable for contractual members.

### **4. Bonus Payment to Distinguished Educators**

The bonus payment made to participants in the Kentucky Distinguished Educator Program cannot be included in annual compensation for KTRS purposes. The compensation subject to KTRS contributions is determined by dividing 185 days into an employee's base salary and multiplying the daily rate by the number of total days in the extended employment period, which would normally be 240 days.

### **5. Retirement Incentives**

Retirement incentives are not reportable as annual compensation for KTRS purposes. Employers who pay retirement incentives are obligated to make full payment to the retirement system at the time a member retires for all actuarial obligations that occur to the retirement system because of retirement incentive payments.

### **6. Benefits Not Available to Other Employees**

Annual compensation should not include payment for benefits which are not available to others employed by the same district. For example, if a board provides a car or insurance that is not available to others in the district, then this benefit is not allowed as KTRS annual compensation. Other benefits might be dental insurance and additional disability, life, and health insurance.

### **7. Expense Reimbursements and Allowances**

Annual compensation should not include any expense reimbursements or allowances such as:

- Moving expenses;
- Travel reimbursements and allowances;
- Automobiles provided by the employer;
- Membership dues;
- Publication subscriptions;
- Dependent care reimbursements;
- Medical care reimbursements;
- Tuition reimbursements; and
- Legal fee reimbursements.

### **8. Compensation in Excess of Pension Plan Limits**

Compensation that would violate qualified pension plan requirements are not allowed as annual compensation. The earnings limitations are required only for employees establishing KTRS membership after June 30, 1996. These limitations are:

1996-97 - \$150,000	2000-01 - \$170,000
1997-98 - \$160,000	2001-02 - \$170,000
1998-99 - \$160,000	2002-03 - \$200,000
1999-00 - \$160,000	

KTRS will inform you when the compensation limit changes.

### **9. Compensation Limited by KRS 161.220(9)**

The board of trustees approves a final average salary based upon the average of the three highest or five highest annual salaries depending on their retirement conditions. However, if any of the five or three highest annual salaries used to calculate the final average salary was paid within the three years immediately prior to the date of the member's retirement, the amount of salary to be included for each of those three years for the purpose of calculating the final average salary shall be limited to the lesser of:



- (a) The member's actual salary; or
- (b) The member's annual salary that was used for retirement purposes during each of the prior three years, plus a percentage increase equal to the percentage increase received by all other members employed by the public board, institution, or agency, or for employees of school districts, the highest percentage increase received by members on any one rank and step of the salary schedule of the school district. The increase shall be computed on the salary that was used for retirement purposes. This limitation shall not apply if the member receives an increase in salary in a percentage exceeding that received by the other members, and this increase was accompanied by a corresponding change in position or in length of employment. This limitation shall also not apply to the payment to a member for accrued annual leave or accrued sick leave which is authorized by statute and which shall be included as part of a retiring member's annual compensation for the member's last year of active service.

### **ACCRUAL REPORTING REQUIREMENTS**

Since each school district and KTRS has a fiscal year that begins on July 1 and ends June 30, the salary paid each KTRS member for work performed during this period must be reported on each year's Employer's Annual Report of Earnings. When a summer assignment begins in June and continues into July, the related earnings must be reported in the appropriate fiscal years, regardless of when payment is actually issued to the teacher.

***Example:***

A teacher has an extended contract that includes a 20-day summer school session for which she receives \$1,000 on August 1. Summer school begins the last week of June and ends the third week of July. The \$250 accrued earnings for five days worked in June must be reported as creditable earnings for the school year ended June 30. The remaining \$750 earned in July must be reported as creditable earnings in the school year beginning July 1.

Earnings associated with prior years should not be forwarded with current year contributions. An Adjustment to Prior Year form should be completed and forwarded to KTRS with appropriate documentation when a change is necessary.

### **Questions**

If you have questions about annual compensation to be reported to KTRS, please contact the Accounting Department by telephone at (888) 891-2696 or by e-mail at [KTRS.info@mail.state.ky.us](mailto:KTRS.info@mail.state.ky.us). Please feel free to call KTRS concerning whether or not a member's compensation is reportable.